Developing High-Speed Rail in California Using Public-Private Partnerships

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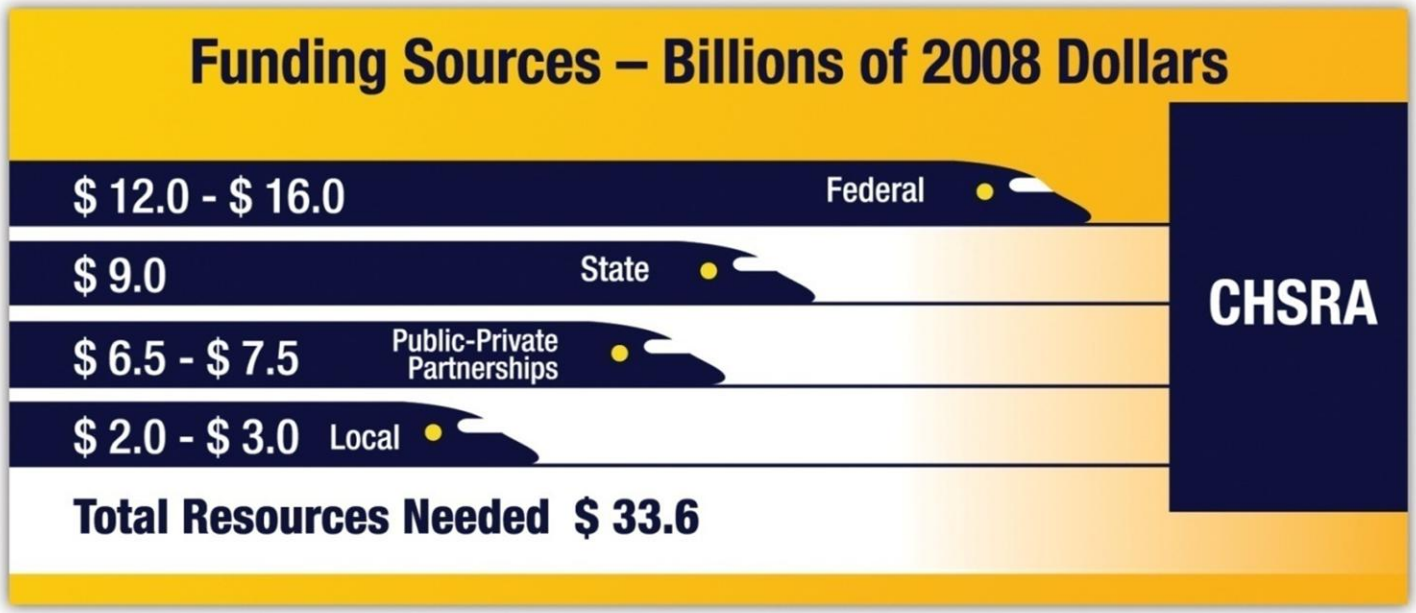
Phase I of the CA High-Speed Rail (HSR) project, the "backbone" segment, runs 400+ miles from San Francisco to Anaheim

The “backbone” segment is expected to be $33.6 B sourced from state, federal, local and public-private partnership (P3) sources

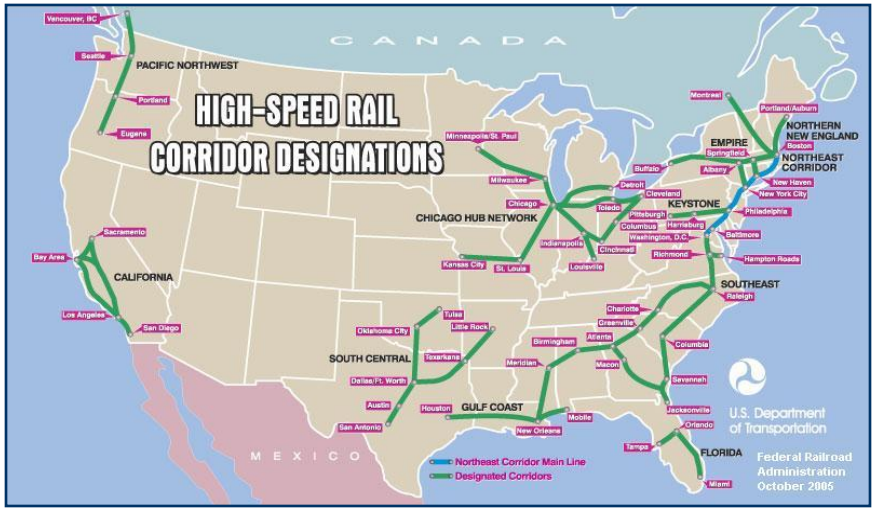


**All figures are in 2008 dollars.*

Federal Support

The American Recovery and Reinvestment Act (ARRA) established critical funding support for HSR development

- HSR under ARRA and the President's FY 2010 budget request demonstrates that HSR development in the US is a priority
- Legislative and policy foundation includes:
  - ARRA funding of $8 B for intercity and HSR
  - FY 2010 proposed appropriations $1 B for HSR
- Funds are available through three separate programs authorized in PRIIA including:
  - Capital Assistance for Intercity Passenger Rail Service (Sec.301)
  - Congestion Grants (Sec. 302)
  - High-Speed Rail Corridor Program (Sec. 501)



State and Local Support

In addition to $9 B in State GO bonds, the funding plan calls for $2-3 B in local funding

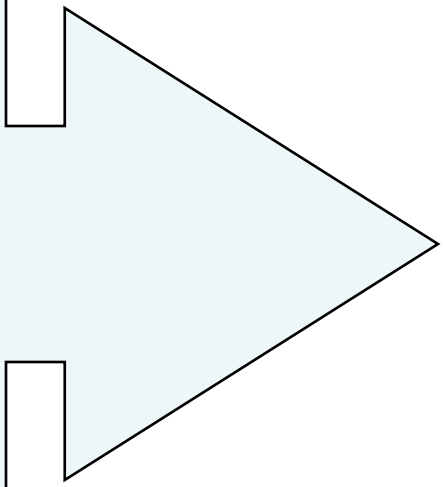
Transit Oriented Development
- Parking, other mixed use development
- Local P3 initiatives

Benefit Assessment Districts
- Santa Clara Valley Transportation Authority
- LA Metropolitan Transportation Authority

Station Concessions
- Retail, advertising etc.
- Local P3 initiatives

Local Cost Sharing Opportunities
- Orange County Transportation Authority
- Caltrains corridor

Air Rights and ROW Leases
- Transbay Joint-Powers Authority



Local Strategic Partnerships
- CA HSR Authority
- Local Government and Transportation Authorities
- Private Developers

Public-Private Partnerships

The Authority issued a RFEI in 2008 and received 30 responses from leading P3 players in international rail & infrastructure development

- 11 construction firms

  Acciona, Balfour Beatty, Bouygues, CH2M Hill, Flatiron, Fluor, Hill Int'l, Inabensa, Kiewit, Parsons, Vinci
- 7 systems and equipment providers

  Alstom, Bombardier, Italferr, RTT, Siemens, Sumitomo, Talgo
- 5 financial institutions

  Babcock & Brown, Carlyle, Goldman Sachs, HSH Nordbank, Meridiam
- 5 operators

  ACD ID, SNCF, Stagecoach, Veolia, Angel Trains
- 2 other respondents

Responses by type of firm varied, but all were clear that risks need to be allocated appropriately

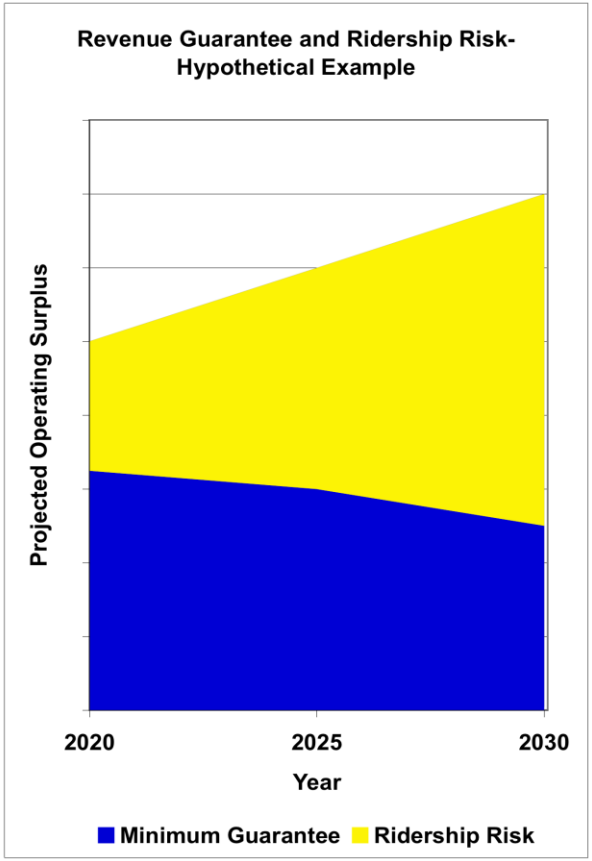
- Firms prefer to accept risk related to their own area of expertise, i.e. construction firms will generally take construction risk, but not operating risk and vice versa

Firm Type	Risk Acceptance
Construction	Construction
Operations	Operational, Ridership
Equipment Supply	Technology
Finance	Ridership, Financial

- Firms are comfortable tying payment to performance, with delivery mechanisms such as design-build, availability payment, and design-build-operate-maintain

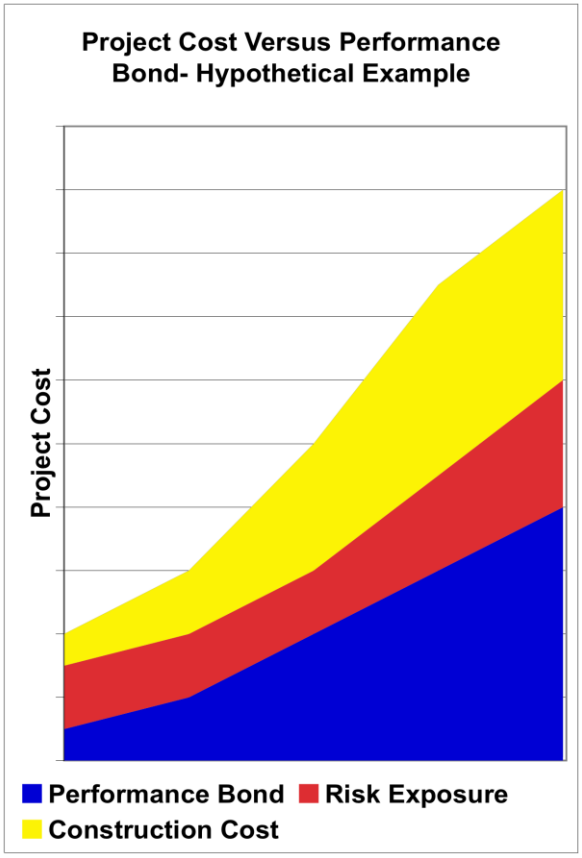
Unproven demand for high speed rail in the U.S. limits the appetite for ridership risk at this time

- Many of those surveyed would be willing to accept some limited ridership risk
- Willingness to accept such risk could increase as the project is nearer to completion, or after several years of ridership has been demonstrated
- Some form of guarantee may be needed to encourage firms to accept substantial revenue risk



Given the current credit markets, public entities need to consider the optimal level of construction bonding

- Firms were unanimous that performance bonding at 100% of construction cost is unlikely for a project of this magnitude
- For projects in the $1-2 B range, bonding at 50% is typical. However, obtaining more than $200 - 300 M for any size project is unlikely today
- Firms stressed the need to determine the Authority's true risk exposure, and seek appropriate performance bonding, surety bonds, or parent company guarantees

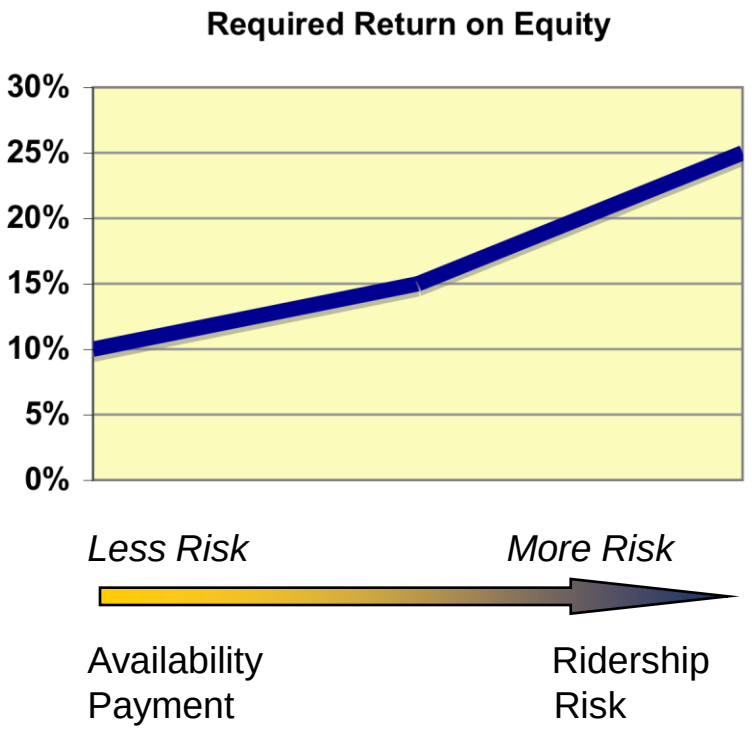


An availability payment approach may be a crucial financing mechanism employed in the construction of the project

- In an availability payment structure, a contractor would receive payments from the Authority over time to reimburse capital expenditures and ensure ongoing performance
- Several firms indicated that availability payment mechanisms will be 'critical' to successful private sector involvement
- Firms are willing to accept risks associated with availability payments; however, this risk must be limited to factors under their control

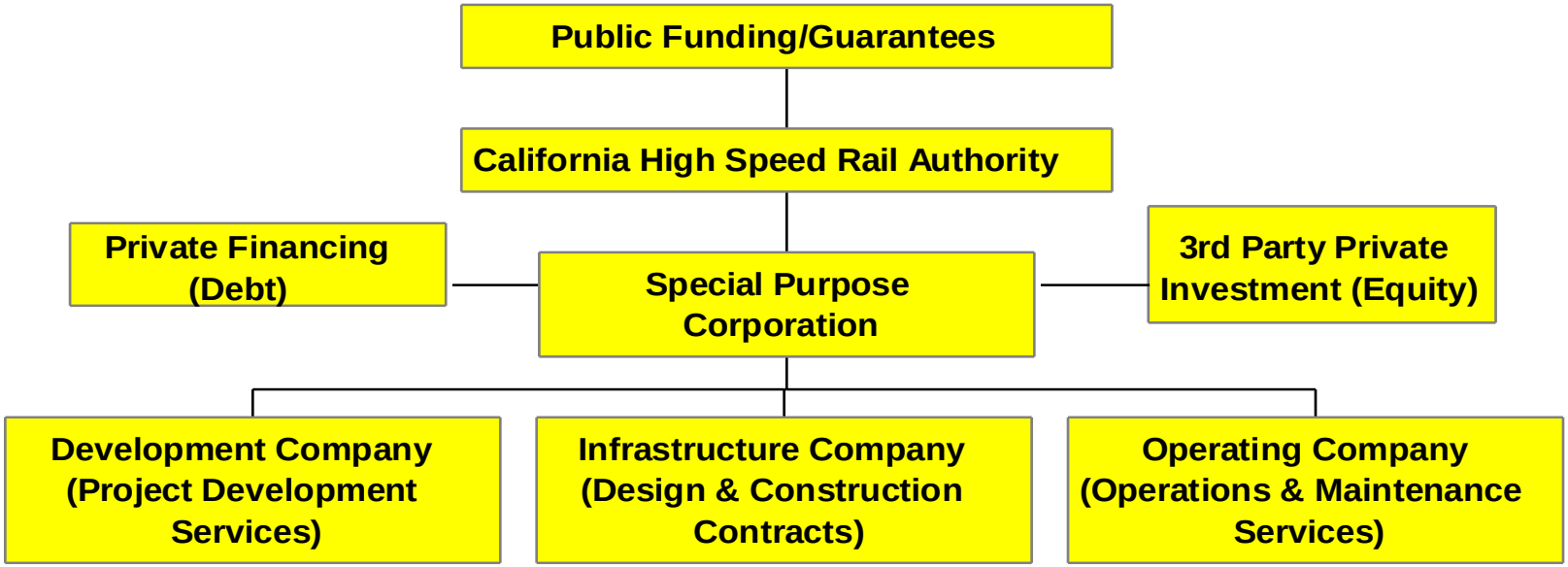
A minimum return in the low- to mid-teens is required on any equity investment made in the HSR project

- Required returns subject to an availability payment were lower than ridership revenues due to lower perceived risk
- One respondent argued that “a good competition will place downward pressure on returns”



Many firms welcome a DBFOM, or concession model, in order to have a single point of responsibility

Public-Private Partnership
Design-Build-Finance-Operate-Maintain (DBFOM) Model



An efficient & competitive procurement process will result in the greatest possible value of private participation

- Firms indicate the time-intensive nature of a procurement potentially requiring up to one year or more for an RFP process
- The payment of a stipend is seen as important, largely due to its value as a signal of the seriousness of the public agency
- RFEI respondents have differing opinions on the use of a Pre-Development Agreement (PDA)
    - Benefits: need to engage the private sector early in the process due to the complexity of the process
    - Considerations: potential to limit competition, increasing costs to the Authority

Private firms are eager to participate in California's high-speed rail project and likely others like it

- Despite current financial markets, many large projects are moving forward and most firms expect economic recovery in the next 1-2 years
- Firms are willing and able to accept many forms of risk transfer, but are reluctant to accept risks that are beyond their control
- Well-thought out project staging, firm public funding commitments, fair performance bonding, clear regulatory requirements, and a well-run procurement process will be essential to maximizing private participation

Lessons From a Mega Project : Applicability to Transit P3s

- Public support (and funding) must be secured before private sector investment will materialize.
- P3s are a means of efficiently allocating different project risks to those most effectively able to bear them- not a way of fixing flawed projects!
- Ridership risk is unlikely to be taken by the private sector in a transit project- but availability payments are becoming widely accepted.

Federal, state, local and P3 funding sources are all progressing towards making CAHSR a reality

- State: Proposition 1 A provided $9 B in critical state support
- Federal: The $8 B ARRA down payment was key to developing long term funding sources as federal funding
- P3: Private firms are eager to participate in California's high-speed rail project and others like it
- Local: as project level environmental documents are completed, local funding will become increasingly important

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